

Teachers' Pension Plan

2002

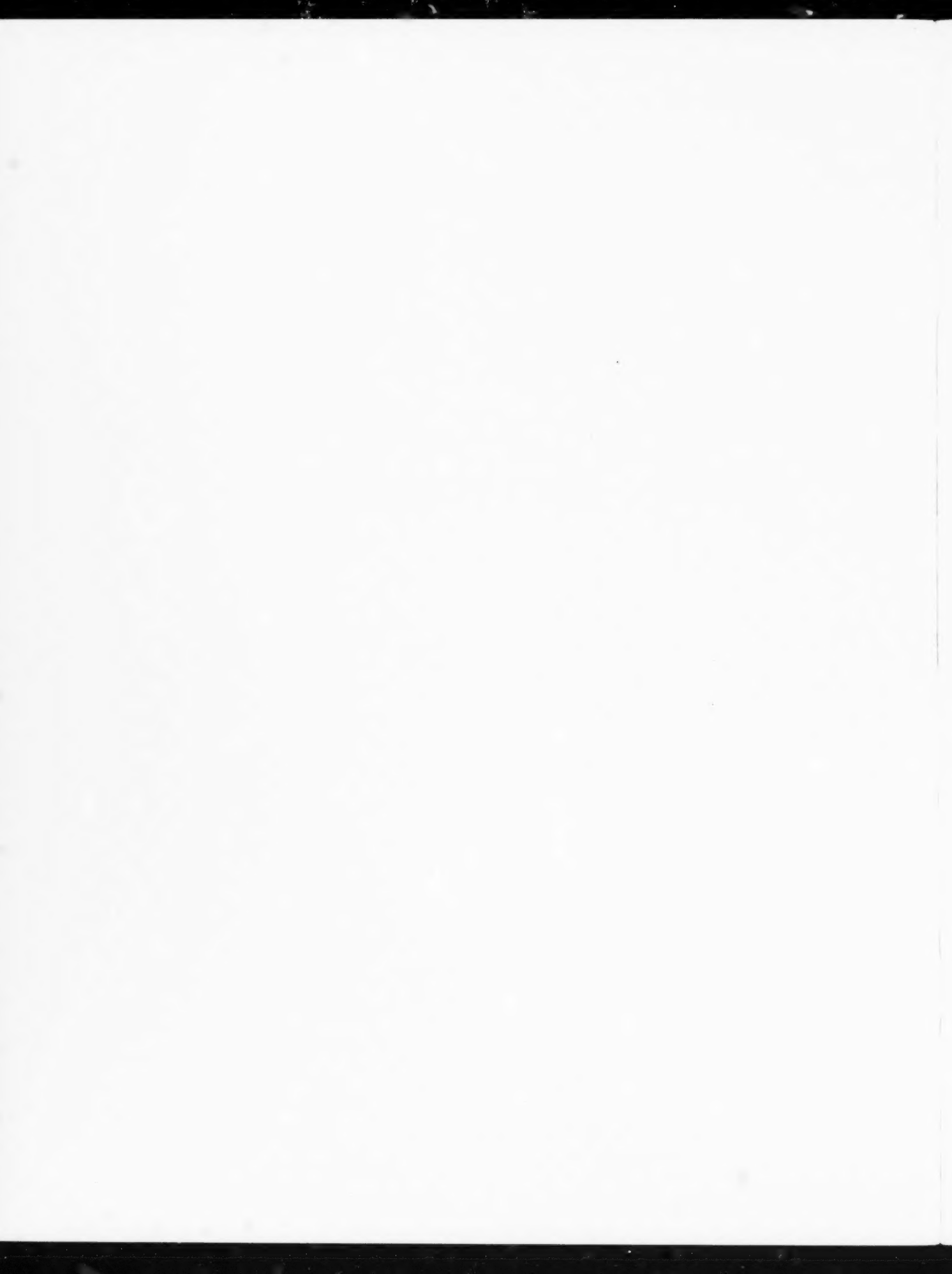
Annual Report

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Teachers'
Pension Plan

BRITISH COLUMBIA





**Teachers'
Pension
Plan**

**2002
Annual
Report**

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MESSAGE FROM THE BOARD

The Teachers' Pension Board of Trustees is pleased to present our annual report for the fiscal year ending December 31, 2002. The board is responsible for the management of the pension plan, including the investment of assets and the administration of the pension plan.

POST-RETIREMENT GROUP HEALTH BENEFITS

This past year the provincial government made changes to health care that increased the cost of providing post-retirement group health benefits for retired members of the plan. A 50% increase in premiums for MSP resulted in the Teachers' Pension Plan no longer being able to pay the MSP premium subsidy effective June 1, 2002. Later in the year, the board became aware of additional anticipated government changes to health care, which have recently been announced. As a result, the board spent considerable time analyzing the situation to determine how best to provide meaningful post-retirement group health benefits within the imposed funding constraints. The board regretfully decided that effective January 1, 2003, extended health plan deductibles will be increased and, effective July 1, 2003, a premium will be charged for spousal and dependant coverage.

The board will continue to monitor costs and make adjustments to ensure that health benefit costs are contained within the funds available.

FINANCIAL HEALTH OF THE BASIC ACCOUNT

At least every three years, an independent actuary assesses the plan's financial health and the adequacy of the contribution rates for funding the plan.

While the investment performance of the past two years has been disappointing, the board takes a long-term approach to fund management and ensures the portfolio is well diversified to provide strong long-term results.

MEMBERSHIP

We welcome all new members to the Teachers' Pension Plan. There are currently about 49,000 active plan members and about 18,500 retired plan members. Active plan membership is projected to remain relatively stable, while the number of retired members is projected to grow over the next three years.

PURCHASE OF SERVICE

In the past year, the simplification of purchase of service rules was implemented; and the backlog of purchase of service requests was eliminated. Members can now easily calculate a purchase of service cost themselves using a new Purchase of Service online estimator that is available on your pension website at pensionsbc.ca.

MESSAGE FROM THE BOARD

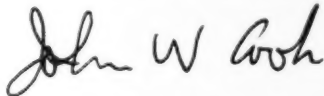
RECIPROCAL TRANSFER AGREEMENT

On January 1, 2002, the interprovincial reciprocal transfer agreement between teachers' pension plans came into effect. This new agreement allows members of teachers' pension plans throughout Canada (with the exception of Newfoundland and Labrador) to transfer their service between plans.

CLIENT SATISFACTION SURVEY

In 2002, a member satisfaction survey was directed to a random sampling of recent retirees, active members and employers of the Teachers' Pension Plan. The survey results provided positive feedback showing a high level of service satisfaction and identified areas of suggested improvement that are being addressed in the current service delivery plan of the Pension Corporation.

We look forward to continuing to serve the Teachers' Pension Plan and its members. If you would like to contact us, please use the address on the back cover of this report.



John W. Cook, Chair

TRUSTEES AS AT DECEMBER 31, 2002

Chair

John W. Cook

Trustee

Joan Axford	Secretary – Treasurer, School District No. 63 (Saanich)
John Bogunovic	Teacher, School District No. 33 (Chilliwack)
Lucas Corwin	Director, Labour Policy, Public Sector Employers' Council Secretariat
Wayne Jefferson	Secretary – Treasurer, School District No. 36 (Surrey)
Dale Lauber	Director, Income Security Division, British Columbia Teachers' Federation
Gerry Tiede	Principal, School District No. 36 (Surrey)
Tom Vincent	Assistant Deputy Minister, Management Services Division, Ministry of Education
Bruce Watson	Retired Teacher
Linda Watson	Teacher, School District No. 44 (North Vancouver)

MESSAGE FROM THE CHIEF EXECUTIVE OFFICER—PENSION CORPORATION

The Pension Corporation is pleased to act as the agent for the Board of Trustees in the administration of the Teachers' Pension Plan. In this capacity, the corporation provides services to active and retired members in the Teachers' Pension Plan, performing key administration duties such as enrolling members, collecting and recording members' and employers' contributions, and calculating, processing and paying pension benefits. In addition, the corporation provides secretariat, policy and communications support to the Board of Trustees, and deals on behalf of the board, with the Canada Customs and Revenue Agency and the Pension Benefit Standards Branch.

The corporation is now at the mid-point of its three year foundation-building Service Delivery Plan, the four principal features of which are: the promotion of a member-centered focus, the development of a well-trained staff, the efficient management of member information, and the enhancement of our web-based services.

Over the last 18 months we have been able to make considerable improvements in the timeliness and overall quality of our responsiveness to members' service requests. Our client satisfaction surveys have confirmed that members recognize and appreciate the improvements in member service.

The simplification of purchase of service rules and the fiscal changes in the education sector resulted in an increase in the number of member requests this year. Demand for service increased by 11%, with our output actually increasing by over 39%. We are working through our backlog of purchase of service requests and are meeting our service targets for requests received under the new simplified rules. While we did not achieve all of our performance targets over the entire year, we did finish the year in good shape and are now responding expeditiously to most service requests.

Technology remains a key component in our business strategy. We completed a comprehensive review of our website and provided a new online estimator to calculate the cost of purchasing pensionable service under the simplified purchase of service rules. We also began our web redesign, which, when completed, will offer enhanced self-service options for plan members.

The key to our success as the pension plan's service provider is a well trained, motivated staff, dedicated to providing quality service to plan members. I would like to acknowledge the contribution of our employees in meeting the objectives of the Pension Corporation. I am proud of their accomplishments and I am confident in the Pension Corporation's ability to meet plan members' expectations. I would also like to extend my thanks to the Teachers' Pension Board of Trustees for their encouragement, support and understanding.



John Mochrie
Chief Executive Officer
BC Pension Corporation

MESSAGE FROM THE CHIEF INVESTMENT OFFICER

MARKET REVIEW

The first three years of the 21st century are ones that investors, and their investment managers, would likely prefer to forget. The U.S. stock market had its third consecutive yearly decline, the first time that this has occurred in more than 50 years.

With the benefit of hindsight, it is obvious that the pendulum swung too far during the bull market of the 1990s. Investors, fuelled by "irrational exuberance" and optimism, were willing to pay exorbitant prices for shares in companies that had little or no earnings. With the bursting of the equity bubble, the pendulum appears to have swung too far in the other direction, with many investors becoming very pessimistic and risk averse. The only positives for long-term investors are that the correction has taken many of the excesses out of the market and shares of some well-performing companies can now be purchased at very reasonable prices.

An important factor underlying the current weakness of stock markets has been the erosion of confidence following the terrorist attack on September 11, and the collapse of Enron, WorldCom, and several other household names. Fraudulent accounting, lax auditing, and dereliction of duty by boards of directors and senior management have undermined the confidence of many investors in the integrity of financial markets and corporate leadership. This has also reinforced the importance of shareholders and institutional investors taking a more active role in the governance of corporations.

While equity markets were exceptionally weak in 2002, government bonds and real estate fared much better as investors looked to more conservative investments to protect their capital. Unfortunately, it is difficult if not impossible to anticipate shocks to the financial system such as September 11, the ensuing corporate scandals, or the outcome of a possible war with Iraq. Therefore, we believe that it is important for pension fiduciaries to maintain a well-diversified investment portfolio and follow a disciplined approach to managing their plan's asset mix. In addition, if investors are overly pessimistic at present, future returns from stocks could be stronger than expected.

The corporate and geopolitical turbulence of 2002 meant it was another disappointing year in terms of equity returns. In Canadian dollar terms, the S&P 500 index decreased 22.7% for the year and the TSX index (Canadian stocks) was down 12.4%. However, because of diversification, the Teachers' Pension Plan fared much better. Specifically, the Basic Account recorded a return of -5.5% for the year. This modestly exceeded its market benchmark, which was -5.7% in 2002.

The most important issue for pension plans is their long-term results and, on a 10-year basis, the annualized return of the Teachers' Basic Account is 9.1%. However, as indicated in last year's report, I anticipate that returns in all asset classes over the next decade will be lower. Still, I continue to believe that the plan will benefit from holding a balanced portfolio and using a disciplined approach to managing the asset mix.

ORGANIZATION REVIEW

The British Columbia Investment Management Corporation (bcIMC) is an independent organization and is governed by a consortium of our clients. Our management board consists of seven directors, including a representative of the Teachers' Pension Plan. However, in terms of investment activity, we are an agent of the Teachers' Pension Plan and are directly accountable to the Teachers' Pension Board of Trustees for their fund's performance. In fact, bcIMC sees itself as the plan's internal investment staff.

During 2002, bcIMC improved service to clients with an enhanced website www.bcimc.com. This provides clients and plan members with easy and convenient access to information about the corporation and our approach to managing trust funds.

A key focus for the corporation over the past year has been improving corporate governance. In 2002, bcIMC revised its proxy voting guidelines and began voting proxies for all of our clients' U.S. equity holdings – just as we have been voting Canadian proxies for several years. In 2003, we will begin voting our top 200 non-North American equity holdings—representing about 75% of all such holdings by market weight. I believe that the events of the past year underline the importance of institutional investors exercising this key fiduciary responsibility.

In 2002, bcIMC also strengthened our team of professionals by filling some key vacancies. In addition, we reduced annual internal costs by about \$800,000 by assuming the management of two foreign equity indexed funds.

On behalf of all the staff at bcIMC, I would like to say that we appreciate working with the Teachers' Pension Board of Trustees in serving the members of the Teachers' Pension Plan.

More information about the agency, our investment team and our management approach can be found at our website www.bcimc.com.



Doug Pearce
Chief Investment Officer/Chief Executive Officer
British Columbia Investment Management Corporation

FINANCIAL AND OPERATIONAL HIGHLIGHTS

The December 31, 1999, full valuation indicated a \$454 million unfunded liability. An unfunded liability indicates that there is a shortfall between the benefits that are promised and the assets that are available to pay for these benefits, whereas a surplus indicates that all promised benefits are funded.

At least every three years, an independent actuary assesses the plan's financial health and the adequacy of the contribution rates for funding the plan. The next full actuarial valuation will be as at December 2002, and results are anticipated in early 2004.

INVESTMENTS

The Teachers' Pension Fund holds a diversified portfolio of debt and equity investments that facilitates prudent management of risk. The portfolio decreased from \$10.8 billion in 2001, to \$10.2 billion at December 31, 2002, primarily as a result of negative annual investment returns. While short-term returns may continue to be more subdued, pension plans have long-term investment horizons and should focus on the longer term. The five-year annualized rate of return was 4.5%.

Investments as at December 31, 2002

	Performance Benchmarks		
	2002	2002	2001
Market Value (\$ Billions)		\$10.2	\$10.8
Market Value Rates of Return			
Basic Account			
Annual	(5.7)%	(5.5)%	(2.1)%
Five-year Average	4.3%	4.5%	8.6%
Inflation Account			
Annual	(3.7)%	(3.3)%	(2.1)%

Latest Actuarial Valuation—December 31, 1999

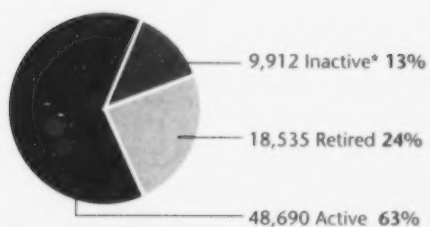
\$ Billions

	Basic Pension Benefits Net Unfunded Liability	
	2000	1997
For Funding Purposes*	\$ 0.45	\$ 1.34
Ratio of Unfunded Liability to Covered Payroll*	21%	66%
Based on Accrued Benefits to December 31	\$ 0.49	\$ 1.42

* Assuming contributions continue at existing rates in effect at the valuation date.

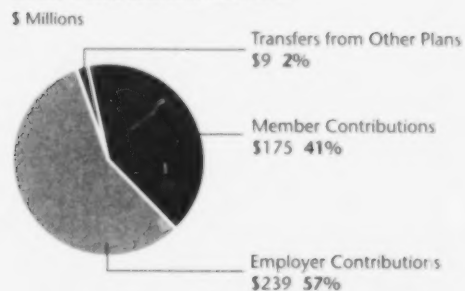
FINANCIAL AND OPERATIONAL HIGHLIGHTS

2002 Membership Profile

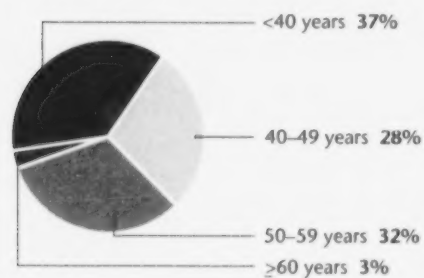


* Members no longer employed but with money on deposit in the plan.

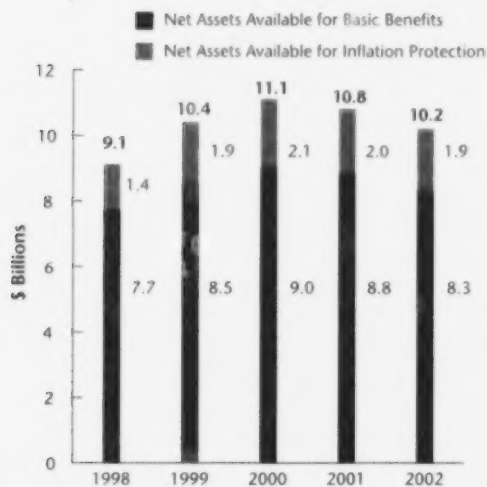
2002 Contribution Revenue



2002 Age Profile of Active Members



Net Assets Available for Benefits as at December 31, 1998-2002



FINANCIAL AND OPERATIONAL HIGHLIGHTS

Five-year Summary Statement of Changes in Net Assets Available for Benefits (Unaudited)

\$ Thousands

For the year ended December 31	2002	2001	2000	1999	1998
Increase (Decrease) in Assets					
Net Investment Income (Loss)					
Total Investment Income	\$ (531,240)	\$ (204,739)	\$ 750,650	\$ 1,324,510	\$ 804,742
Investment Management Costs	(16,178)	(15,433)	(14,992)	(11,881)	(12,236)
	(547,418)	(220,172)	735,658	1,312,629	792,506
Contributions					
Members	175,201	158,978	140,294	145,989	144,052
Employers	238,915	225,227	205,886	204,396	202,263
Province of British Columbia	-	10,527	-	-	9,692
Transfers from Other Plans	8,515	7,470	8,613	16,895	11,261
Total Increase (Decrease) in Assets	(124,787)	182,030	1,090,451	1,679,909	1,159,774
Decrease in Assets					
Pension Benefits	439,897	399,046	370,044	335,797	301,238
Termination Benefits	11,736	13,552	10,163	12,921	12,971
Transfers to Other Plans	18,237	5,284	7,605	2,936	3,695
Retired Member Group Benefits	20,124	22,954	20,528	18,461	15,727
Administration Costs	7,155	6,325	5,638	5,826	6,345
Total Decrease in Assets	497,149	447,161	413,978	375,941	339,976
Increase (Decrease) in Net Assets	(621,936)	(265,131)	676,473	1,303,968	819,798
Net Assets Available for Benefits at Beginning of Year	10,823,821	11,088,952	10,412,479	9,108,511	8,288,713
Net Assets Available for Benefits at End of Year	\$10,201,885	\$10,823,821	\$11,088,952	\$10,412,479	\$9,108,511
As a Percentage of Net Assets					
Administration Costs (%)	0.07	0.06	0.05	0.06	0.07
Investment Management Costs (%)	0.16	0.14	0.14	0.11	0.13

PLAN GOVERNANCE

The Teachers' Pension Plan became a jointly trustee pension plan in April 2001, under a joint trust agreement between the partners authorized under the *Public Sector Pension Plans Act*.

The Teachers' Pension Plan **partners** are the provincial government and the B.C. Teachers' Federation. The partners are responsible for appointing the trustees, directing amendments to the plan if certain conditions are met, and resolving trustee disputes.

The **Teachers' Pension Board of Trustees** is fully responsible for the management of the pension plan, including the investment of the assets, and the administration of the pension plan.

The board of trustees may amend the pension plan rules as long as changes can be funded by pension fund surpluses or are cost-neutral to the plan. Plan rule changes that result in contribution rate changes must be approved by the partners. If the actuary determines that it is necessary to increase contribution rates, the trustees must increase employer and member contribution rates equally.

The **British Columbia Pension Corporation** is the sole provider of administrative services to the pension plan, and is answerable to the board of trustees for benefit administration service levels.

The **British Columbia Investment Management Corporation** (bcIMC) is answerable to the board of trustees for providing investment management services within asset mix policies approved by the trustees.

COMMUNICATIONS

Communicating with plan members is a priority of the Teachers' Pension Board of Trustees. We continue to work on new communications materials to ensure all plan information is easily understood, accurate and up-to-date. Plan member newsletters, bulletins and *Pensionfacts*—a series of fact sheets—are regularly published.

A key initiative is the redesign of the website. When completed, it will offer a cleaner, easier interface, while allowing enhanced self-service options for plan members.

Additional information about the plan is available online at pensionsbc.ca.

INVESTMENTS

APPROVED INVESTMENT ASSET MIX

Strategic and short-term asset allocation targets are set within the ranges shown in the Approved Basic Account Investment Asset Mix table. Short-term for asset mix purposes includes government bonds with one- to five-year terms and money market funds.

Approved Basic Investment Asset Mix

Asset Class	Market Value	
	Lower Limit (%)	Upper Limit (%)
Debt	25	45
Short-term	0	10
Bonds	15	30
Mortgages	0	10
Equity	55	75
Canadian Equities	15	30
U.S. Equities	5	20
International Equities	10	25
Real Estate	5	12
Private Placements	0	6

INVESTMENT PORTFOLIO

Investments Held as at December 31, 2002

	Market Value (\$ Thousands)	Asset Mix Market Value (%)
Money Market	214,913	2
Canadian Bonds		
Government	1,444,619	14
Corporate	395,965	4
Long-term	378,424	4
Short-term (1 to 5 years)	193,633	2
Canadian Equities		
Indexed	1,804,030	18
Actively Managed	839,074	8
U.S. Equities		
Indexed	885,034	9
Actively Managed	403,787	4
International Equities		
Asia	244,030	2
Europe	439,035	4
Europe, Australia and the Far East	749,995	7
Real Estate	1,062,909	11
Mortgages	411,711	4
Private Placements	386,516	4
Total Pooled Portfolios	\$9,853,675	97
Canadian Real Return Bonds	\$318,595	
Real Estate	\$2,867	3
Total Investments	\$10,175,137	100%
2001 Comparison	\$10,796,422	

For further information on the investment portfolio, visit the bcIMC website at www.bcimc.com.

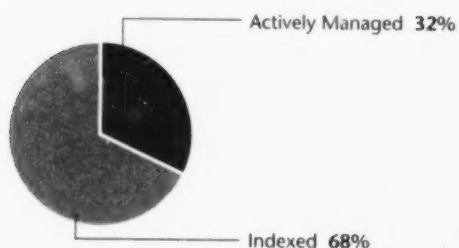
INVESTMENTS

2002 Investment Holdings (Market Value)

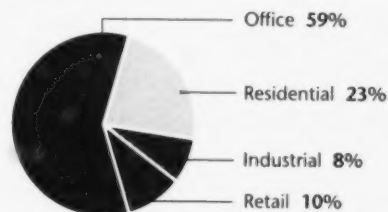
\$ Billions



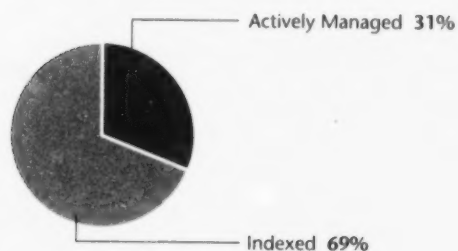
Canadian Equities (Market Value)



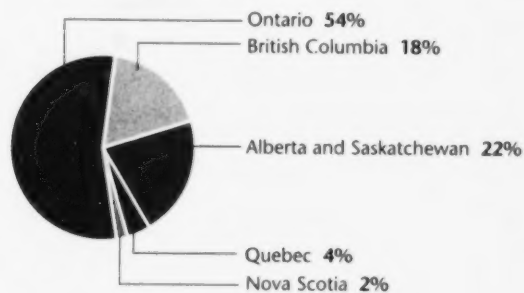
Real Estate, by Type



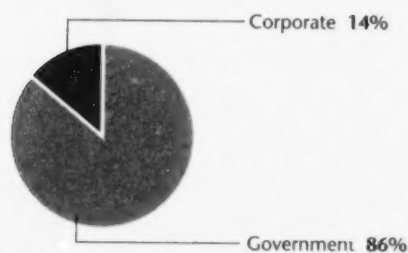
U.S. Equities (Market Value)



Real Estate, by Location

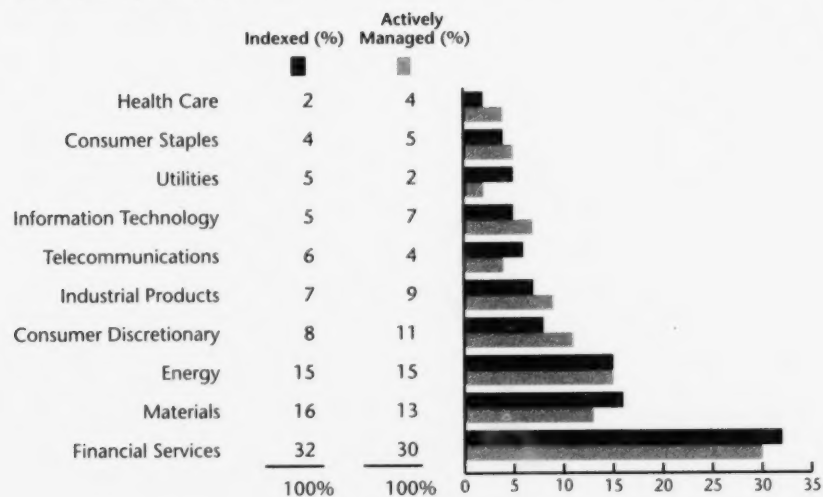


Canadian Bonds (Market Value)

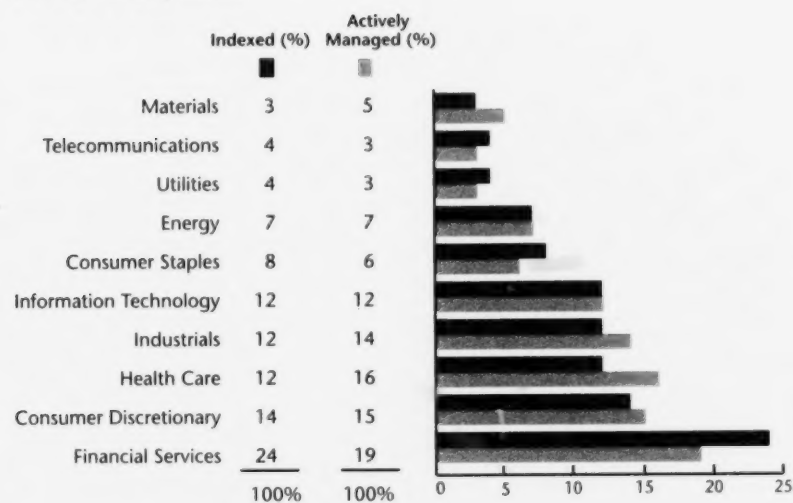


INVESTMENTS

Canadian Equities, by Sector

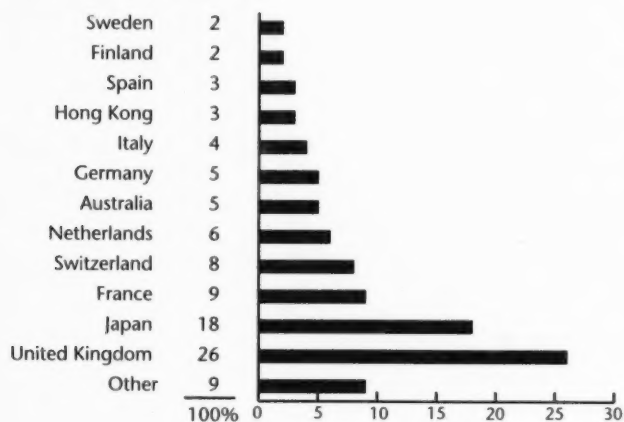


U.S. Equities, by Sector



INVESTMENTS

International Equities (%)



INVESTMENT PERFORMANCE

Net Earned Rate of the Fund

Year	%
1998	11.6
1999	14.6
2000	12.8
2001	8.6
2002	4.5

Rates of return are based on the five-year market value average of the basic account.

INVESTMENTS

Market Value Rates of Return for the Year Ended December 31, 2002

	Basic Account (%)	Inflation Adjustment Account (%)	2002 Performance Benchmarks (%)
Five-year Average Rates			
2002	4.5	4.9	4.3
2001 Comparison	8.6	8.5	8.4
Annual Rates			
2002	-5.5	-3.3	-5.7
2001 Comparison	-2.1	-2.1	-3.7
2002 Annual Rates by Investment Category		2002 Performance Benchmark Indices	
Short-term			
Money Market	2.5	2.7	2.5 SCI 91-Day Treasury Bills
Bonds	6.0	6.1	6.2 SCI Government Short-term
Bonds			
Government	9.0	9.0	8.8 SCI Government Universe
Corporate	9.3	9.3	8.6 SCI Corporate Universe
Long-term	11.6	11.6	11.3 SCI Government Long-term
Real Return	—	15.1	15.3 SCI Real Bond
Canadian Equities			
Actively Managed	-9.5	-9.5	-12.4 Active Canadian Benchmark
Indexed	-11.8	-11.8	-12.4 S&P/TSX
U.S. Equities			
Actively Managed	-23.3	-23.3	-22.3 R 1000
Indexed	-22.7	-22.7	-22.7 S&P 500
Value	-21.4	-21.4	-21.5 S&P 500 Value
Enhanced	-23.8	-23.8	-22.3 R 1000
International Equities			
Asia	-11.3	-11.3	-10.1 MSCI Pacific Net
Europe	-20.5	-20.5	-18.8 MSCI Europe Net
Europe, Australia and the Far East	-15.5	-15.5	-16.5 MSCI EAFE Net
Real Estate	6.0	6.0	8.0 CPI + 4%
Mortgages			
Fixed-term	8.8	8.9	7.3 SCI Short-term Bonds + 1%
Construction	5.5	5.5	4.1 SCI One-year Bill + 1%
Specialty	8.5	8.5	5.7 SCI One-year Bill + 2.5%

Performance Benchmark Indices Abbreviations

CPI	=	Consumer Price Index
SCI	=	Scotia Capital Inc.
S&P	=	Standard & Poor's
MSCI	=	Morgan Stanley Capital International
MSCI EAFE	=	Morgan Stanley Capital International Europe, Australia & Far East
R	=	Russell
S&P/TSX	=	Standard & Poor's/Toronto Stock Exchange Composite

(Source of annual rates: British Columbia Investment Management Corporation)

ACTUARIAL VALUATION/PLAN FUNDING

An interim actuarial report as at December 2000 indicated that the financial health of the plan had improved to a surplus position at that time. The December 31, 1999, full valuation indicated a \$454 million unfunded liability. An unfunded liability indicates that there is a shortfall between the benefits that are promised and the assets that are available to pay for these benefits, whereas a surplus indicates that all promised benefits are funded.

At least every three years, an independent actuary assesses the plan's financial health and the adequacy of the contribution rates for funding the plan. The next full actuarial valuation will be as at December 2002, and results are anticipated in early 2004.

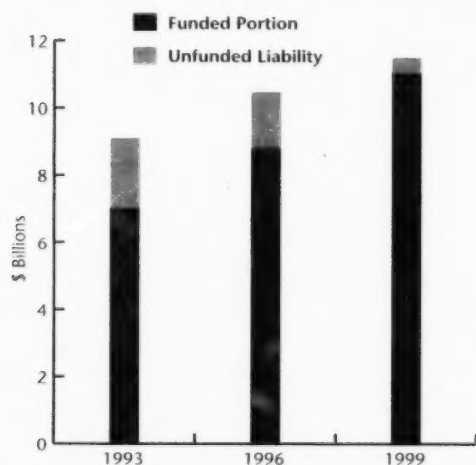
Latest Actuarial Valuation as at December 31, 1999

\$ Billions

	Basic Pension Benefits Net Surplus (Unfunded)		
	1999	1996	1993
For Funding Purposes*	\$0.45	\$1.34	\$1.72
Ratio of Unfunded Liability to Covered Payroll*	21%	66%	92%
Based on Accrued Benefits to December 31	\$0.49	\$1.42	\$1.78

* Assuming contributions continue at rates in effect at the valuation date.

Funding of the Total Basic Benefit Liability



PLAN BENEFITS

The Teachers' Pension Plan is a defined benefit pension plan. Benefits are based on the member's highest five years of salary, length of service and age at retirement. The plan provides entitlement to a pension benefit after two years of contributory service. The plan also provides survivor and disability benefits.

PENSIONS

The number of retired members continues to grow. The number of pensions granted in 2002 increased 25% from the number granted in 2001. The number of retired members on payroll increased 7%.

Pensions are paid at the end of each month, beginning with whichever of the following comes latest:

- the month following the month in which the plan member becomes eligible
- the month following the month in which the plan member receives the final salary, or
- the month in which the Pension Corporation receives the member's application.

The plan pays a full month's pension for the month in which a pensioner dies.

Basic pensions have a significant value. The value of a basic pension depends on a number of factors, including the member's age, salary and years of service at retirement.

The accompanying table shows the average asset value ('present value') of pensions granted during 2002. The value represents approximately how much it would cost to purchase an average basic pension provided under the Teachers' Pension Plan.

Average Values of Regular Pensions Granted January 1, 2002 to December 31, 2002

Subdivided by Years of Service

Years of Service*	Number of Pensions Granted	Average Annual Salary Base	Average Annual Pension	Average Present Value of Pensions	Total Present Value of Pensions (\$ Millions)
<10 years	35	\$43,000	\$ 3,000	\$ 44,000	\$ 1.5
10-14	75	48,000	10,000	127,000	9.5
15-19	102	51,000	14,000	186,000	19.0
20-24	159	57,000	20,000	272,000	43.3
25-29	240	61,000	25,000	359,000	86.2
30-34	638	65,000	32,000	481,000	306.9
≥35 years	132	63,000	34,000	498,000	65.7
Total	1,381	n/a	n/a	n/a	\$532.1
All Pension Average	n/a	\$61,000	\$26,000	\$385,000	n/a

* Years of service includes service transferred from other plans.

PLAN BENEFITS

Pensions 1993-2002

	Granted During Year	Pension Terminations	In Force at End of Year	Basic Pensions Paid (\$ Millions)	Inflation Supplements Paid (\$ Millions)	Total (\$ Millions)
1993	503	201	10,438	140.5	50.9	191.4
1994	668	228	10,878	150.1	52.9	203.0
1995	1,050	207	11,721	170.3	51.9	222.2
1996	970	228	12,463	192.0	54.9	246.9
1997	1,048	201	13,310	214.2	56.7	270.9
1998	1,370	291	14,389	242.2	58.8	301.2
1999	1,673	262	15,800	277.4	58.4	335.8
2000	831	291	16,340	305.8	64.2	370.0
2001	1,230	265	17,305	327.6	71.4	399.0
2002	1,542	312	18,535	361.6	78.3	439.9

Pensions Granted, by Type 1993-2002

	Regular*	Death*	Disability	LTD+	Deferred	Total
1993	369	17	15	28	74	503
1994	540	15	13	30	70	668
1995	883	18	5	56	88	1,050
1996	787	13	9	60	101	970
1997	896	14	5	52	81	1,048
1998	1,207	19	5	54	85	1,370
1999	1,494	9	3	83	84	1,673
2000	717	13	3	67	31	831
2001	1,097	22	0	61	50	1,230
2002	1,381	24	1	73	63	1,542

* Pensions granted do not include any pension continued to a beneficiary upon the death of a pensioner.

+ LTD pensions are those members on long-term disability who became eligible for a regular pension.

2002 Regular Pensions Granted by Age at Retirement

Subdivided by years of service and age at retirement

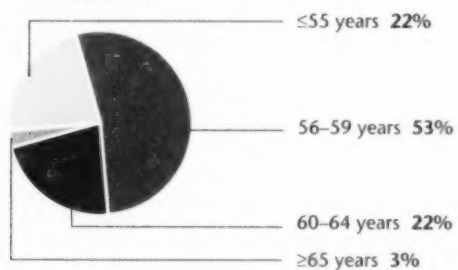
Years of Service	55	56-59	60-64	65	Total
<10 years	7	9	12	7	35
10-14	22	20	27	6	75
15-19	27	37	32	6	102
20-24	52	53	51	3	159
25-29	71	96	69	4	240
30-34	110	438	83	7	638
>35 years	12	76	38	6	132
Total	301	729	312	39	1,381

PLAN BENEFITS

Percentage of 2002 Regular Pensions by Years of Service

<10 years	3
10-14	5
15-19	7
20-24	12
25-29	17
30-34	46
>35 years	10
Total	100%

Percentage of 2002 Regular Pensions Granted by Age



PLAN BENEFITS

TERMINATION BENEFITS

A terminating member may be eligible for one or more of the following benefits:

- a refund of contributions with interest
- a transfer of the commuted value of the pension benefit to a locked-in registered retirement savings plan or a registered pension plan, or
- a deferred pension.

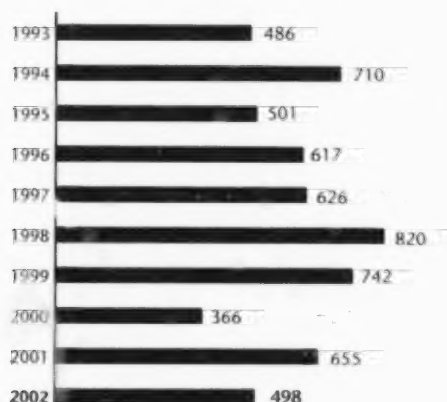
The number and value of termination benefits paid can vary significantly from year to year, depending on the employment environment. There have been significant fluctuations over the last ten years.

The value of a termination benefit increased significantly from 1994 onward with the introduction of the commuted value payment, which allowed members to transfer the value to a locked-in Registered Retirement Savings Plan or equivalent vehicle. Typically, commuted values (which represent the net present value of a future pension entitlement) are significantly higher in dollar value than members' personal accumulated contributions.

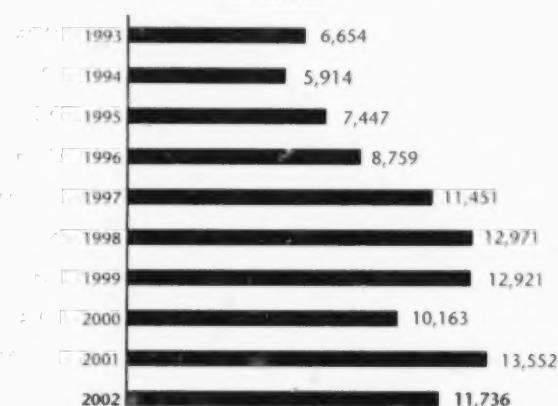
If a member leaves the plan and takes a refund of contributions, the refund includes interest. Interest compounds annually and is credited to the member's contribution balance. The balance, including interest, is included in the annual Member's Benefit Statement.

The rate of interest is governed by pension standards and pension plan legislation and is based on average five-year bank personal term deposit rates.

Number of Termination Benefits Paid



Value of Termination Benefits Paid
\$ Thousands



Termination benefits paid include only refunds of contributions and commuted-value payments; deferred pensions are included in pension statistics.

PLAN BENEFITS

Annual Rates for Interest Credited to Contribution Balances

1998	4.30%
1999	4.56%
2000	5.28%
2001	4.00%
2002	3.74%

PORTABILITY PROVISIONS

Portability allows pension plan members to carry pension rights from one plan to another. For instance, members of the Teachers' Pension Plan may carry their years of pensionable service and contributions to a new plan at a different place of employment if the new plan has a portability agreement with the Teachers' Pension Plan. Employers who allow pension plan members to transfer their pension rights to other pension plans are called "reciprocal employers."

Members of the Teachers' Pension Plan who have made contributions to another pension plan should inquire about portability agreements.

In 2002, there were 178 reciprocal transfers in from other agencies totaling approximately \$8.5 million and 394 transfers out totaling approximately \$18.2 million. Transfers include those between the Teachers' Pension Plan and three other British Columbia public sector plans (College, Municipal, and Public Service) as well as those with teacher pension plans in all other provinces except Newfoundland and Labrador.

PURCHASE OF ADDITIONAL SERVICE

It may be possible for plan members to purchase additional service. This service may include:

- leaves of absence
- arrears contributions
- non-contributory service, or
- reinstatement of refunded contributions.

The number and value of purchases of additional service increased in 2002.

Member and Employer Purchases of Additional Service

	Number of Purchases		Value of Purchases (\$ Thousands)	
	2002	2001	2002	2001
Leaves of Absence	1,857	416	\$ 8,570	\$1,635
Arrears Contributions	425	39	312	240
Non-contributory Service*	150	0	501	0
Reinstatement of Refunded Contributions	582	313	6,973	3,809
Total	3,014	768	\$16,356	\$5,684

* Effective April 1, 2002

PLAN PARTICIPANTS

Membership in the Teachers' Pension Plan is open to all certified teachers, including administrative staff who are certified teachers who are appointed by a board of school trustees in the British Columbia public school system, and to eligible employees of other employers approved by the Teachers' Pension Board of Trustees. Once an employee elects or qualifies to contribute to the plan, contributions continue as long as the employee remains with the employer, or until the employee has completed 35 years of pensionable service.

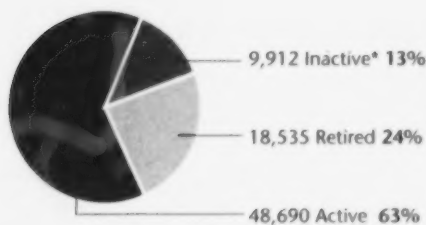
Participating employers are the school districts, the British Columbia College of Teachers, the Teacher Qualification Service (British Columbia), the British Columbia School Superintendents' Association, the British Columbia Principals' and Vice-Principals' Association, the Francophone Education Authority and the British Columbia Teachers' Federation.

There are three categories of members in the Teachers' Pension Plan:

- **Active**—those currently contributing, or on a leave of absence, or receiving benefits from an approved salary continuance plan.
- **Inactive**—those who have terminated their employment with contributions deposited in the plan. They may or may not be eligible for a pension in the future. Those who are eligible are known as vested and deferred members. Even if an inactive member is not entitled to a Teachers' Pension Plan benefit, they may be eligible for a pension as a result of combining their entitlement in other pension plans covered by the Interplan Pension Transfer Agreement. From 1998 onward, the number of vested and deferred members has been adjusted to include these inactive members.
- **Retired**—those who are receiving a pension.

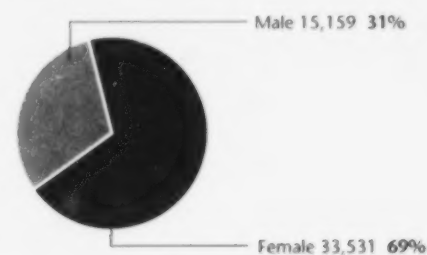
The number of active plan members in the Teachers' Pension Plan decreased by about 2% in 2002. Today there are approximately 49,000 active plan members and about 18,500 retired members.

2002 Membership Profile



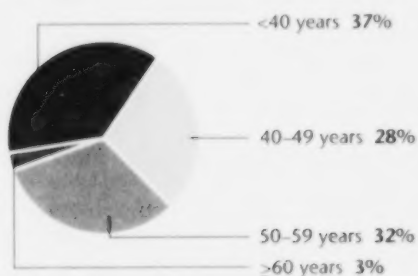
* Members no longer employed but with money on deposit in the plan.

2002 Active Member Profile



PLAN PARTICIPANTS

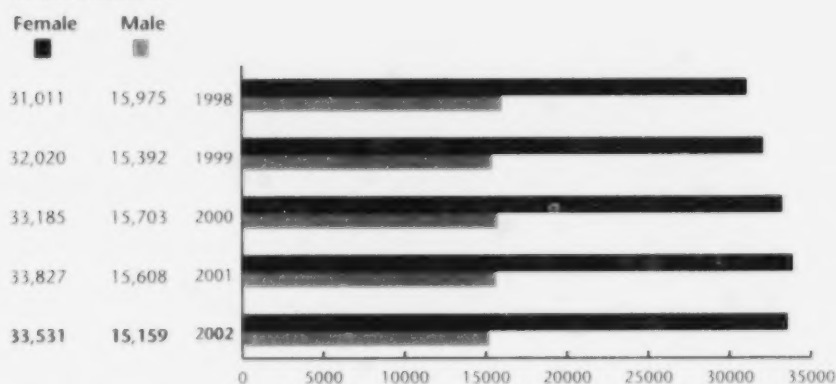
2002 Age Profile of Active Members



Number of Members

	Active	Inactive, Terminated	Inactive, Vested and Deferred	Retired	Total
1998	46,986	11,239	966	14,389	73,580
1999	47,412	8,142	2,667	15,800	74,021
2000	48,888	6,492	2,834	16,340	74,554
2001	49,435	6,486	3,087	17,305	76,313
2002	48,690	6,710	3,202	18,535	77,137

Active Members

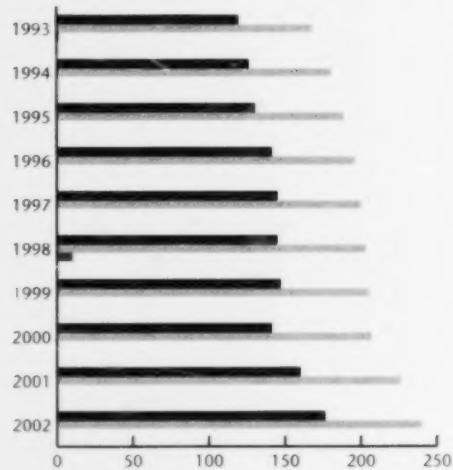


PLAN PARTICIPANTS

Contributions

\$ Millions

Member	Employer	Early Retirement Funding from the Province
118.61	167.07	0.90
125.32	179.47	
129.60	187.81	
140.52	195.26	
144.08	199.08	
144.05	202.26	9.69
145.99	204.40	
140.29	205.89	
158.98	225.23	
175.20	238.92	



FINANCIAL STATEMENTS

PENSION CORPORATION

TEACHERS' PENSION PLAN

ADMINISTRATIVE AGENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Executive Offices

Mailing Address:

PO Box 9460
Stn Prov Govt
Victoria BC
V8W 9V8

Location:

2995 Jutland Road
Victoria BC
V8T 5J9

Phone:

250-387-8201
1-800-663-8823

Fax:

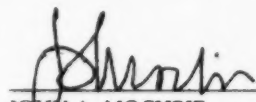
250-387-4199

The financial statements of the Teachers' Pension Plan were prepared by the British Columbia Pension Corporation, the administrative agent for the board of trustees of the pension plan. The board of trustees is responsible for having annual financial statements prepared in accordance with generally accepted accounting principles. The Corporation prepares the financial statements on the board's behalf and is responsible for the integrity and fairness of the data presented, including significant accounting judgements and estimates. This responsibility includes selecting appropriate accounting policies consistent with generally accepted accounting principles in Canada. Other financial information contained in the Annual Report for the pension plan conforms to these financial statements.

In discharging its responsibility for the integrity and fairness of the financial statements, the Corporation maintains the internal controls necessary to provide reasonable assurance that relevant and reliable financial information is produced and that assets are properly safeguarded.

The firm of Eckler Partners Ltd. has been appointed the independent consulting actuary to the plan by the board of trustees. The role of the actuary is to complete an actuarial valuation of the plan in accordance with accepted actuarial practice; the results of the valuation are included in the financial statements.

The firm of KPMG LLP has been appointed the independent auditor to the plan by the board of trustees. The role of the auditor is to perform an independent audit of the financial statements of the pension plan in accordance with Canadian generally accepted auditing standards. The resulting audit opinion is set out in the Auditors' Report attached to these financial statements.



JOHN A. MOCHRIE
Chief Executive Officer
British Columbia Pension Corporation



P. LOUISE YOUNG, C.A.,
Vice-President, Corporate Services,
British Columbia Pension Corporation

April 4, 2003



KPMG LLP
Chartered Accountants

St. Andrew's Square II
800 - 730 View Street
Victoria BC V8W 3Y7

Telephone (250) 480-3500
Telefax (250) 480-3539
www.kpmg.ca

AUDITORS' REPORT

To the Members of the Teachers' Pension Plan

We have audited the statement of net assets available for benefits of the Teachers' Pension Plan as at December 31, 2002 and the statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the Plan's net assets available for benefits as at December 31, 2002 and the changes in its net assets available for benefits for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Victoria, Canada

April 4, 2003



KPMG LLP is a Canadian owned limited liability partnership established under the laws of Ontario and is the Canadian member firm of KPMG International, a Swiss nonoperating association.

TEACHERS' PENSION PLAN
STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS
(\$ Thousands)

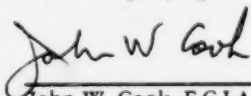
December 31	2002	2001
ASSETS		
Investments (Note 3)	<u>\$ 10,175,137</u>	<u>\$ 10,796,423</u>
Receivables		
Members' contributions	11,819	13,975
Employers' contributions	17,097	19,678
Accrued investment income	981	786
Due from sale of investments	5,456	2,371
Other	-	24
	<u>35,353</u>	<u>36,834</u>
Prepaid expense	458	1,695
Cash	1,628	6,249
Total Assets	<u>10,212,576</u>	<u>10,841,201</u>
LIABILITIES		
Payable for purchase of investments	-	10,000
Accounts payable and accrued expenses	<u>10,691</u>	<u>7,380</u>
Total Liabilities	<u>10,691</u>	<u>17,380</u>
NET ASSETS AVAILABLE FOR BENEFITS	<u>\$ 10,201,885</u>	<u>\$ 10,823,821</u>

Obligations for Pension Benefits for Funding Purposes (Note 7)

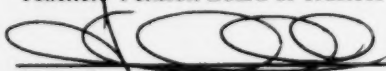
Obligations for Pension Benefits for Accounting Purposes (Note 8)

Commitments (Note 11)

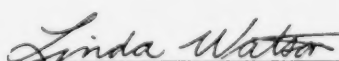
All accompanying notes are an integral part of these financial statements.



John W. Cook, F.C.I.A.,
Chair and Trustee
Teachers' Pension Board of Trustees



Lucas Corwin
Trustee
Teachers' Pension Board of Trustees



Linda Watson
Trustee
Teachers' Pension Board of Trustees

FINANCIAL STATEMENTS

TEACHERS' PENSION PLAN
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
(\$ Thousands)

For the year ended December 31	Basic Account	Inflation Adjustment Account	Supplemental Benefits Account	Totals	
				2002	2001
(DECREASE) INCREASE IN ASSETS					
Net investment (loss) income (Note 4)	\$ (479,857)	\$ (67,561)	\$ -	\$ (547,418)	\$ (220,172)
Contributions (Note 5)					
Members	130,050	45,131	20	175,201	158,978
Employers	213,470	5,182	20,263	238,915	225,227
Province of British Columbia	-	-	-	-	10,527
	343,520	50,313	20,283	414,116	394,732
Transfers from other plans	7,096	1,419	-	8,515	7,470
Total (Decrease) Increase in Assets	(129,241)	(15,829)	20,283	(124,787)	182,030
DECREASE IN ASSETS					
Pension benefits					
Contributory	361,549	-	57	361,606	327,649
Indexing supplements	78,290	-	1	78,291	71,397
	439,839	-	58	439,897	399,046
Termination benefits paid	8,697	3,022	17	11,736	13,552
Transfers to other plans	13,691	4,546	-	18,237	5,284
Retired member group benefits (Note 10)	-	-	20,124	20,124	22,954
Administration costs (Note 9)	7,071	-	84	7,155	6,325
Total Decrease in Assets	469,298	7,568	20,283	497,149	447,161
(DECREASE) INCREASE IN NET ASSETS					
BEFORE TRANSFERS	(598,539)	(23,397)	-	(621,936)	(\$ 265,131)
Account transfers (Note 6)	94,263	(94,263)	-	-	-
(DECREASE) INCREASE IN NET ASSETS	(504,276)	(117,660)	-	(621,936)	(265,131)
NET ASSETS AVAILABLE FOR BENEFITS					
AT BEGINNING OF YEAR	8,779,388	2,044,433	-	10,823,821	11,088,952
NET ASSETS AVAILABLE FOR BENEFITS					
AT END OF YEAR	\$ 8,275,112	\$ 1,926,773	\$ -	\$ 10,201,885	\$ 10,823,821

**TEACHERS' PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002**

1. DESCRIPTION OF THE TEACHERS' PENSION PLAN

Effective April 5, 2001, the Teachers' Pension Plan Joint Trust Agreement was implemented and now governs the plan. The ongoing partners to the agreement are the government and the BC Teachers' Federation. The pension plan rules are made under the authority of that agreement. The agreement also describes the composition, appointment, powers, functions and duties of the Teachers' Pension Board of Trustees (the board).

a) General

The plan is a contributory defined benefit pension plan open to all certified teachers, including administrative staff who are certified teachers who are appointed by a board of school trustees in the British Columbia public school system.

b) Roles and Responsibilities

The Board of Trustees

The partners are responsible for appointing the trustees other than the chair, directing amendment to the plan if certain conditions are met and resolving trustee disputes. The Teachers' Pension Board of Trustees consists of up to eleven members. Ten members representing the plan members and plan employers are appointed by the partners. The eleventh member, the chair, is appointed by the other trustees. The board is fully responsible for the management of the pension plan, including investment of the assets and administration of the pension plan. The board may amend the pension plan rules as long as changes can be funded by pension fund surplus. Unless required to ensure compliance with regulatory enactments applicable to the pension plan, plan changes that result in contribution rate changes can only be initiated by the partners.

British Columbia Pension Corporation (Pension Corporation)

The Pension Corporation is the provider of benefit administrative services to the pension plan. The Pension Corporation is answerable to the board for benefit administration service levels.

British Columbia Investment Management Corporation (bcIMC)

bcIMC is answerable to the board for providing investment management services within investment policies approved by the trustees.

**TEACHERS' PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002**

1. DESCRIPTION OF THE TEACHERS' PENSION PLAN (CONTINUED)

c) Contributions

Basic Account

Members contribute to the Basic Account 5.0% of salaries up to the Canada Pension Plan Year's Maximum Pensionable Earnings (YMPE) (\$39,100 in 2002) and 6.5% of salaries above that, less amounts allocated to the Supplemental Benefits Account. (See Notes 5 and 10).

Employers contribute to the Basic Account 9.0% of salaries up to the YMPE and 10.5% over the YMPE, less amounts allocated to the Supplemental Benefits Account. (See Notes 5 and 10).

Inflation Adjustment Account

Members contribute 2% of salaries to the Inflation Adjustment Account (1% of salaries prior to June 1, 2001). Employers contribute 1.13% of salaries to the Inflation Adjustment Account, less amounts allocated to the Supplemental Benefits Account. (See Notes 5 and 10).

d) Pension Benefits

All members with two years of contributory service are eligible for a pension benefit.

Members are eligible for unreduced pension benefits:

- at age 65;
- at age 60, with at least 2 years contributory service; or
- at age 55 or older, with age plus years of service equalling 90 or more.

Other retiring members have a reduction formula applied to their pensions.

The basic plan benefit is integrated with the Canada Pension Plan (CPP). As a result, the plan provides an unreduced benefit of 1.3% of pensionable earnings, up to the CPP Year's Maximum Pensionable Earnings (YMPE) and 2% of pensionable earnings over the YMPE, for each year of pensionable service (to a maximum of 35 years).

Pensionable earnings are based on the member's five-year highest average salary (HAS). The plan also provides a bridging benefit with CPP which is payable to age 65 (or the date of death, if earlier). The bridging benefit is 0.7% of the lesser of YMPE or the HAS.

**TEACHERS' PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002**

1. DESCRIPTION OF THE TEACHERS' PENSION PLAN (CONTINUED)

d) Pension Benefits (continued)

Increases to pension payments may be provided each January 1 in accordance with the indexing provisions of the plan. These increases are based on the annual increase in the Consumer Price Index (CPI) as at the previous September 30, and are subject to availability of funds in the Inflation Adjustment Account (Note 6 and 7b).

At January 1, 2002, retired members received a full CPI increase of 2.6% (2001 - 2.7%), at January 1, 2003, retired members will receive a full CPI increase of 2.3%.

e) Termination and Portability Benefits

A terminating member who is not eligible for a pension benefit may receive a refund of contributions with interest. A terminating member who is eligible for a pension benefit but who has not reached the earliest age at which the member would be eligible to receive an immediate pension is eligible to choose:

- a deferred pension; or
- a transfer of the commuted value of the pension benefit (the minimum value is the members' contributions with interest) to a locked-in registered retirement savings plan or similar tax-sheltered plan.

A terminating member may also choose to leave monies on deposit in anticipation of future entitlements.

Where there are portability arrangements between the plan and other plans, members may be able to transfer certain pension rights.

f) Other Benefits

Disability and survivor benefits are also available under the plan. Supplemental benefits (Note 10) may also be funded from the Supplemental Benefits Account of the pension fund. Under certain circumstances, members may also reinstate or purchase additional service to increase their future pension benefits.

g) Income Taxes

The plan is a Registered Pension Plan (RPP) as defined in the *Income Tax Act* (Canada) except for any supplemental benefits (Note 10) which are funded in addition to the RPP. The RPP is not subject to income taxes.

**TEACHERS' PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002**

2. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of Presentation

These financial statements present the pension plan as a separate financial reporting entity, independent of the plan's contributing employers and members, and independent of any associated retired member group benefits plan. The Statement of Net Assets Available for Benefits shows the assets under control of the trustees of the plan, and does not purport to show their adequacy to meet the obligations of the plan.

b) Investments

Investments are stated at market value. Market value is derived from external quotations, appraisals, or independent valuations. Investment purchases and sales are recorded on trade date.

c) Investment Income

Investment income is recorded on the accrual basis.

d) Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of increases and decreases in assets during the period. Actual results could differ from those estimates. Significant areas requiring the use of management estimates relate to the valuation of investments and the estimate of the actuarial position of the Basic Account.

**TEACHERS' PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002**

3. INVESTMENTS (Market Value)

	2002			2001
	Basic Account	Inflation Adjustment Account	Total	Total
	(\$ Thousands)			
Short-term	\$ 199,925	\$ 14,988	\$ 214,913	\$ 99,409
Canadian Bonds	2,091,723	639,513	2,731,236	2,766,023
Canadian Equities	2,680,503	538,031	3,218,534	3,452,876
U.S. Equities	565,514	147,877	713,391	943,396
International Equities	1,146,972	286,088	1,433,060	1,646,615
Mortgages	331,423	80,288	411,711	417,169
Real Estate	865,510	200,266	1,065,776	1,097,561
Private Placements	370,917	15,599	386,516	373,374
	<u>\$8,252,487</u>	<u>\$1,922,650</u>	<u>\$10,175,137</u>	<u>\$10,796,423</u>

Plan investments consist primarily of direct ownership in units of pooled investment portfolios, managed by the bcIMC. Each unit gives its holder a proportionate share in the net assets of the pooled fund. One or more pooled investment portfolios exist for different types of investments, such as short-term investments, Canadian bonds and Canadian equities.

Short-term investments consist primarily of Canadian money market securities, such as treasury bills, with terms of 15 months or less. Canadian bonds consist of government and corporate bonds and debentures. Equities consist primarily of publicly traded shares, and in the case of international equities refer to investments in Europe, Australia and the Far East.

Mortgages consist mainly of Canadian construction, commercial and multi-family residential mortgages. Real estate investments consist mainly of diversified Canadian income-producing properties. Private placements refer to Canadian and international long-term debt or equity investments made outside the structure of public markets (Note 11).

The mortgages are secured by real estate and are valued using current market yields. The real estate is valued quarterly by bcIMC real estate investment managers and, on average, annually by independent external appraisals to establish current market values. Private placements are valued annually by external managers at their estimate of fair market value.

**TEACHERS' PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002**

4. INVESTMENT INCOME

	2002			2001
	Income Allocation	Current Period Change In Market Value	Total	Total
	(\$ Thousands)			
Basic Account				
Short-term	\$ 4,435	\$ (433)	\$ 4,002	\$(193,419)
Canadian Bonds	124,843	67,499	192,342	175,901
Canadian Equities	47,027	(394,332)	(347,305)	5,364
U.S. Equities	15,731	(178,548)	(162,817)	(75,671)
International Equities	26,390	(246,461)	(220,071)	(177,527)
Mortgages	21,801	5,097	26,898	22,458
Real Estate	43,878	9,560	53,438	64,491
Private Placements	4,016	(16,947)	(12,931)	5,027
	<u>\$ 288,121</u>	<u>\$ (754,565)</u>	<u>\$(466,444)</u>	<u>\$(173,376)</u>
Investment Management Costs			(13,413)	(12,722)
Net Investment Loss			<u>\$(479,857)</u>	<u>\$(186,098)</u>
Inflation Adjustment Account				
Short-term	\$ 365	\$ (61)	\$ 304	\$ (53,331)
Canadian Bonds	40,286	35,947	76,233	29,533
Canadian Equities	8,771	(72,110)	(63,339)	23,703
U.S. Equities	3,714	(44,267)	(40,553)	(14,167)
International Equities	6,316	(61,926)	(55,610)	(37,046)
Mortgages	4,948	1,197	6,145	5,815
Real Estate	9,746	2,263	12,009	14,583
Private Placements	166	(151)	15	(453)
	<u>\$ 74,312</u>	<u>\$ (139,108)</u>	<u>\$ (64,796)</u>	<u>\$ (31,363)</u>
Investment Management Costs			(2,765)	(2,711)
Net Investment Loss			<u>\$(67,561)</u>	<u>\$(34,074)</u>
Total Basic and Inflation Adjustment Accounts				
Total Investment Loss			\$(531,240)	\$(204,739)
Total Investment Management Costs (Note 9)			(16,178)	(15,433)
Total Net Investment Loss			<u>\$(547,418)</u>	<u>\$(220,172)</u>

The income allocation portion of investment income represents pooled investment portfolio income attributable to the pension fund, as a unitholder, and as calculated by the bcIMC, as well as interest income from directly held investments. All income earned within a pooled investment portfolio is reinvested within the portfolio.

FINANCIAL STATEMENTS

TEACHERS' PENSION PLAN NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2002

5. CONTRIBUTIONS

	2002				2001
	Basic Account	Inflation Adjustment Account	Supplemental Benefits Account	Total	Total
	(\$ Thousands)				
Members' contributions					
Regular	\$120,267	\$43,895	\$ 20	\$164,182	\$154,169
Arrears	114	32	-	146	60
Purchase of Service	155	48	-	203	161
Leave of absence	2,760	937	-	3,697	779
Reinstatement	6,754	219	-	6,973	3,809
	<u>130,050</u>	<u>45,131</u>	<u>20</u>	<u>175,201</u>	<u>158,978</u>
Employers' contributions					
Regular	208,728	4,544	55	213,327	200,886
ERIP Contributions	30	13	-	43	-
Arrears	148	18	-	166	180
Purchase of Service	267	31	-	298	236
Leave of absence	4,297	576	-	4,873	856
Supplemental benefits	-	-	20,208	20,208	23,069
	<u>213,470</u>	<u>5,182</u>	<u>20,263</u>	<u>238,915</u>	<u>225,227</u>
Province's contributions					
Regular	-	-	-	-	10,527
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,527</u>
Total Contributions	<u>\$343,520</u>	<u>\$50,313</u>	<u>\$20,283</u>	<u>\$414,116</u>	<u>\$394,732</u>

Employer regular Basic Account contributions were \$208.8 million, of which \$73 thousand was allocated to the Supplemental Benefits Account. Employer regular Inflation Adjustment Account contributions were \$24.7 million of which \$20.1 million was allocated to the Supplemental Benefits Account.

In accordance with the Joint Trust Agreement, the provincial government contributed \$10.5 million to the Basic account for the period January 1, 2001 to May 31, 2001. This represented an amount equal to the 1% increase in employer contribution rate for employers who were boards of school trustees for the period.

**TEACHERS' PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002**

6. ACCOUNT TRANSFERS

	2002		2001	
	Basic Account	Inflation Adjustment Account	Basic Account	Inflation Adjustment Account
	(\$ Thousands)			
Present value of current indexing supplements	\$92,257	\$(92,257)	\$ 88,422	\$(88,422)
Indexing of deferred pensions	2,006	(2,006)	2,585	(2,585)
Excess interest	-	-	(39,998)	39,998
	<u>\$94,263</u>	<u>\$(94,263)</u>	<u>\$ 51,009</u>	<u>\$(51,009)</u>

A separate account is maintained for funding current and future indexing supplements. This Inflation Adjustment Account (IAA) is funded through a portion of ongoing contributions from employers and members (Note 1c), from investment income earned on its own assets, and from excess interest earned in the Basic Account.

All pension payments are made from the Basic Account. Each year, when members' pension payments are adjusted for current indexing, monies are transferred from the IAA to the Basic Account to cover the present value of all future payments arising from the current indexing supplements.

When a deferred pension begins to be paid, the present value of the cost of living changes during the deferral period is also transferred from the IAA to the Basic Account.

There was no excess interest transfer to the IAA for the year ended December 31, 2002 (2001: \$40 million). Excess interest is based only on investment income earned on those Basic Account assets required for pensions currently being paid (approximately \$4.0 billion of assets for 2002; \$3.6 billion for 2001). The excess interest rate of return is determined by taking the difference between the actual five-year average market rate of return and the rate of return used by the actuary (7.5%) in valuing the plan's liabilities. The calculated excess interest rate of return for 2002 was -3.0%; (2001: 1.1%). This negative return will be carried forward and offset against future excess returns.

**TEACHERS' PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002**

7. OBLIGATIONS FOR PENSION BENEFITS FOR FUNDING PURPOSES

a) Basic Account

An actuarial valuation of the plan's assets and pension obligations is performed at least every three years by an independent actuary to determine an appropriate combined employer and member contribution rate to fund the Basic Account. For this purpose, the plan actuary values both accrued assets and benefit obligations to the financial statement date, as well as contributions and benefits for future service. The actuary's calculated contribution rate is based on the entry age method.

The most recent full actuarial valuation for funding purposes was prepared as at December 31, 1999. This valuation disclosed an unfunded liability for basic pension benefits of \$0.5 billion (1996 - \$1.3 billion), assuming future contributions at the contribution rates in effect at the valuation date. The next full actuarial valuation will be at December 31, 2002 (for inclusion in the December 31, 2003 financial statements.)

The following table shows a key indicator of the financial health of a pension plan, the Basic Account surplus or unfunded actuarial liability (UAL) as a percentage of payroll, for the three most recent actuarial valuations. (Values shown in the table assume future contributions at the rates in place at the time, rather than the actuary's calculated rates.)

Actuarial Valuation Date	Actuarial Value of Basic Account Assets (w)	Basic Account Actuarial Liability (x)	Basic Account UAL (y)	Covered Payroll (z)	UAL as a Percentage of Payroll (y/z)
(\$ Billions)					
1993	7.07	8.79	1.72	1.87	92%
1996	8.77	10.11	1.34	2.03	66%
1999	11.03	11.48	0.45	2.16	21%

In accordance with the Joint Trust Agreement, an interim extrapolation of the December 1999 valuation results was performed subsequent to December 31, 2000, to bring the results forward to December 31, 2000. On that basis the extrapolated results, on a funding basis, to December 31, 2000 indicated that the financial health of the plan had improved.

**TEACHERS' PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002**

**7. OBLIGATIONS FOR PENSION BENEFITS FOR FUNDING PURPOSES
(CONTINUED)**

a) Basic Account (continued)

The Joint Trust Agreement specifies a transitional period during which the rebalancing of member and employer contribution rates and specified benefit improvements will be achieved. During this transitional period, if an actuarial valuation indicates that increased basic account contribution rates are required to fully fund the plan on a going-concern basis, the increase shall be shared equally by members and employers.

Also during this period, if surplus assets or actuarial gains occur, they will be used to achieve the following objectives in the following order:

- eliminate unfunded liability
- rebalance member and employer contribution rates
- provide specified benefit improvements

After the transitional objectives have been achieved, if an actuarial valuation indicates that increased basic contribution rates are required, the increase must be shared equally by members and employers. The agreement also describes the manner in which the board can elect to apply surplus assets.

b) Inflation Adjustment Account

No unfunded liability exists for the IAA, since the obligation for future indexing benefits is limited to the amount of the available assets in the account. As indexing is granted to retired members full funding for that granted indexing, on a net present value basis, is transferred from the IAA to the Basic Account, from which the pensions are paid. There is no minimum level of indexing required to be paid under the plan rules, nor is there any plan provision or intention to fund the IAA to any minimum level of future potential indexing.

**TEACHERS' PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002**

**7. OBLIGATIONS FOR PENSION BENEFITS FOR FUNDING PURPOSES
(CONTINUED)**

b) Inflation Adjustment Account (continued)

The Teachers' Pension Board of Trustees monitors the performance of the Inflation Adjustment Account and, at least annually, reviews the projected impact on the account of possible differing future economic trends. Such factors include inflation rates, real wage growth rates, real investment rates of return and group health benefits costs. This sensitivity analysis assists the board to identify, some years in advance of its possible occurrence, the point at which the Inflation Adjustment Account assets may cease to grow and beyond that, the point at which full indexing benefits may not be able to be granted. As long as there are contributions to the Inflation Adjustment Account, there will be some measure of indexing protection for retired members.

8. OBLIGATIONS FOR PENSION BENEFITS FOR ACCOUNTING PURPOSES

An actuarial valuation is performed at least every three years and its primary objective is to assess the financial position and adequacy of funding for the Basic Account of the plan as described in Note 7a. As part of the actuarial valuation the actuary also calculates values, for accounting purposes, for Basic Account assets as at, and pension liabilities accrued to, the financial statement date. For this purpose, contributions and benefits for future service are not included as they are for the valuation for funding purposes in Note 7a.

The Basic Account is the account from which the defined basic benefits of the plan are paid and from which any indexing that has been granted to retired members, is also paid. Future indexing benefits are not guaranteed within the plan provisions and are granted to retired members only to the extent that sufficient money is available from the Inflation Adjustment Account to fund those benefits. As indexing is granted, the Basic Account receives from the Inflation Adjustment Account the necessary net present value funding for the granted indexing. Therefore accrued basic pension benefits, for valuation purposes, include the liability for all indexing granted to the date of the valuation, but not, as yet unknown, future indexing.

The latest full valuation was made as at December 31, 1999 by Eckler Partners Ltd. Net actuarial assets in the Basic Account as at that date were \$7.5 billion (1996 - \$5.4 billion). Liabilities for accrued basic pension benefits were \$8 billion (1996 - \$6.8 billion). As a result, on an accrued benefits basis, there was a Basic Account unfunded liability of \$0.5 billion (1996 - \$1.4 billion). The next full actuarial valuation will be at December 31, 2002 (for inclusion in the December 31, 2003 financial statements.)

**TEACHERS' PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002**

**8. OBLIGATIONS FOR PENSION BENEFITS FOR ACCOUNTING PURPOSES
(CONTINUED)**

The present value of liabilities for pension benefits accrued to the valuation date is determined using the projected benefit method prorated on service. Net assets are valued using five-year market value smoothing. Actuarial liabilities and net assets reflect the following long-term actuarial assumptions:

- annual investment return 7.5%
- annual salary escalation rate 5.0%

In accordance with the Joint Trust Agreement, an interim extrapolation of the December 1999 valuation results was performed by the plan to bring the results forward to December 31, 2000. On that basis, the extrapolated results, on an accounting basis, to December 31, 2000 indicated a decrease of the unfunded liability to \$90 million.

Also, for accounting purposes, a further extrapolation of accrued benefit obligations is required to the year end date. This has been done to December 31, 2002 using the same long term actuarial assumptions as above. On that basis the extrapolated unfunded liability is \$21 million.

Extrapolations may not be reliable indicators of the next valuation results nor do they necessarily reflect the overall trend of results. Between valuations, actual wage increases, investment earnings and the incidence of retirements, withdrawals, etc. may vary significantly from the long-term assumptions used in the extrapolation.

No unfunded liability exists for the Inflation Adjustment account, since the obligation for future indexing benefits is limited to the amount of the available assets in the account.

9. RELATED PARTY TRANSACTIONS

a) Administration Costs

Administration costs include general benefit administration costs, actuarial fees and board expenses. General administration costs incurred by the Pension Corporation are prorated and charged to each pension plan under its administration based primarily on the relative numbers of members in each plan. Included in benefit administration costs is \$6.9 million of Pension Corporation benefit administration costs and in the accounts payable balance is \$1.6 million due to the Pension Corporation for those costs.

**TEACHERS' PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
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9. RELATED PARTY TRANSACTIONS (CONTINUED)

b) Investment Management Costs

The bcIMC manages investments on behalf of the board and uses internal and external investment managers for this purpose. Total investment management fees for 2002 were \$16.2 million (2001 - \$15.4 million).

10. SUPPLEMENTAL BENEFITS ACCOUNT

The Supplemental Benefits Account is the account through which certain supplemental benefits are funded. For example, pension benefits which exceed the *Income Tax Act* (Canada) limits for registered pension plans are paid through this account. Certain group benefit coverage may also be provided for retired members through this account. The availability, type and level of this retiree group benefit coverage is contingent upon the availability of funds within the Supplemental Benefits Account to fund such benefits. To the extent that group benefits are funded from the Supplemental Benefits Account, they are funded from employer inflation contributions.

11. COMMITMENTS

The plan participates in Private Placement and International Equity Pools managed by bcIMC. As at December 31, 2002, the Teachers' Pension Plan share of commitments (over the next several years) for future investment contracts in these pools is approximately \$282 million.

This is a publication of the Teachers' Pension Board of Trustees.

If you have any questions on the information
contained in this report, please contact:

Teachers' Pension Board of Trustees
c/o Pension Board Secretariat
PO Box 9460 Stn Prov Govt
Victoria, BC V8W 9V8

or fax your request to 250 387-4199.

For additional copies of this report, please contact:

Communications Branch
Pension Corporation
PO Box 9460 Stn Prov Govt
Victoria BC V8W 9V8

or fax your request to 250 356-9591.

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